

**Exhibit E-1-a
Supplemental
Buyback Analysis**

*The Aftereffects of the Pacific Groundfish Limited Entry Trawl Buyback Program
A Preliminary Analysis.
NMFS NWR (March 09, 2005 Draft)*

Executive Summary

On December 4, 2003, under the Pacific Groundfish Limited Entry Trawl Buyback Program (Buyback Program) NOAA Fisheries permanently retired 91 trawl vessels and their Pacific Groundfish limited entry trawl permits. (NOAA Fisheries had previously announced the purchase of 92 vessels and federal groundfish permits, but at the last moment rejected one purchase due to an invalid bid package.) Designed under specific instructions from U.S. Congress (Attachment 1), the Buyback Program reduced the number of trawl permits to 172, excluding the ten associated with the catcher-processor fleet. The 91 buyback vessels cannot fish anywhere in the world ever again.

The Buyback Program was designed with the following goals:

- * Reduce capacity in the groundfish fishery
- * Increase the remaining harvesters' productivity
- * Financially stabilize the fishery
- * Conserve and manage groundfish

As a result of the Buyback Program:

- * The number of permits has been reduced by 35%
- * Annual groundfish revenues per permit are expected to increase by 53%
- * Capacity in terms of endorsed permit length for the fleet has been reduced by 34%
- * The physical capacity rating of the fleet (points) has been reduced by 31%
- * Some trip limits have been increased

Since October 1, 2003, the NMFS NWR has transferred 15 trawl permits to new owners. The NWR has also received signals about the potential transfer of another two permits. Some of these transfers are by Buyback Participants and others are by seafood processors. Many of these permits have been idle in recent years. Some reviewers of the Buyback Program have raised concerns about Buyback Program participants reentering the fishery by buying such permits. Others have asked NOAA Fisheries to set a control date and issue an advance notice of proposed rule making to address inactive or "lightly fished" latent permits to keep new capacity from reentering the fishery.

The Buyback Program also bought 121 state crab and shrimp permits. This analysis does not describe the effects of the Buyback Program on these fisheries because of insufficient information. As a result this analysis is incomplete and preliminary. Some of this information will not be available until June 2004 after the California crab permit renewal cycle is completed. NOAA Fisheries is seeking information from the states on what actions they are taking to permanently revoke the state permits purchased. NOAA Fisheries is also now working with the states on how best to collect the fees needed to repay the \$36 million loan portion of the Buyback Program's \$46 million cost. (Attachment 2 provides information about the Buyback loan and state crab and shrimp fisheries.).

To help discussions concerns latent permits in the groundfish fishery, this analysis describes some of the results of the Buyback Program. In particular, this paper provides details on the 172 trawl permits that remain in the fishery. As a means of focusing discussion, this analysis sets up two alternative definitions of "latent." One definition defines an active permit as one that has landed at least one pound of fish, every year, over a number of consecutive years. A second definition is based on a review of 2002 harvests by permit and arbitrarily defines a latent permit as one that has less than 50,000 lbs. associated with it in a single year. Applying these definitions and comparing these alternatives produces a range of 24 to 32 latent permits. For discussion permits this range is collapsed into a single estimate of 30 permits.

However, defining "latent" and taking any action on "latent" permits will depend on discussions between NOAA Fisheries and the Pacific Fishery Management Council. The current Pacific Groundfish FMP does not contain provisions for removing "latent" permits. In developing Amendment 6 to the FMP, the Pacific Fishery Management Council rejected "Use It or Lose it" rules for removing "latent" permits.

"These provisions result in expiration of a permit if the holder fails to make a certain minimum amount of landings in a fishing year. This type of measure is counter productive to effort reduction policies and its use was therefore minimized in development of the license limitation alternative." (Amendment six, page 4-81)

One way to frame future discussions on this issue is to address the following question:

The Pacific Groundfish Buyback Program has reduced the available pool of limited entry permits for vessels that deliver to shore plants and motherships from 263 permits to 172 permits. Before carrying out a trawl ITQ program, should NMFS and the Council take action to reduce the number of inactive permits?

The next section of the analysis reviews various conclusions, findings, and other issues related to groundfish permits and the term "latent." These are:

- * The term "latent" has no official definition.
- * Forty permits had no recorded groundfish landings in 2002 and 2003.
- * Four permit owners did not fish their permits at all during the 1998 to 2003 period.
- * The number of unfished permits increased significantly after the year 2000 mirroring the decline in groundfish.
- * During 2002, 56 permits had harvest levels less than 50,000 lbs.
- * Some Permits may not be fished because of strategic planning.
- * The ITQ Control Date and rising permit prices are discouraging the sale of latent permits.
- * Fifteen trawl permits have changed hands since October 1, 2003. Six had 2002 harvests. Nine did not.
- * Knowing there is a control date on ITQ's why buy a permit?
- * Activating some permits may be helpful to some fishing communities. How has the Buyback Program affected fishing communities?

This section is then followed by final section whereby the two alternatives are described, applied, and compared. This section projects:

- * For 2004, after considering recent permit transfers and the potential for increased harvests of whiting, about 30 "latent" permits remain in the fishery.

Discussion and Findings:

The term "latent" has no official definition

The Magnuson-Stevens Act, the Pacific Groundfish Fishery Management Plan (FMP), or the academic literature do not define the term "latent." As a result, there are no guidelines for the analyst to use for measuring latency. Defining the term "latent" will depend on available data and on the goals and objectives for the fishery.

In defining the term "latent" it will be important to distinguish between two interrelated concepts: "latent permits" and "latent capacity." Most discussions about "latent permits" concern minimum landing requirements that must be met for the permit to remain valid. Other discussions concern "latent" capacity which is about how much unutilized fishing effort exists in the fishery. This analysis is addressed to the "latent" permit issue.

Many of the issues surrounding the term "latent" are discussed in the March 16, 2000 draft Report on Overcapitalization in the West Coast Groundfish Fishery developed by the Economic Subcommittee of the Pacific Fisheries Management Council's Scientific and Statistical Committee:

Under Amendment 6 to the Groundfish FMP (PMFC 1992a) the Council established a limited entry program whereby vessels meeting minimum landings requirements (MLRs) for trawl, longline or fishpot gear during the window period July 1, 1984-August 1, 1988 could qualify for a transferable limited entry permit. Permit holders were allowed to use only those gears endorsed on their permits (i.e., those gears for which they met the MLRs) while participating in the limited entry fishery. While permits must be renewed annually, permit holders are not required to land any groundfish in order for the permit to remain valid. To discourage increases in harvest capacity associated with the transfer of permits from smaller to larger boats, non-permitted vessels desiring to enter the fishery are required to either purchase a permit from a similar-sized or larger vessel or to purchase a combination of permits from smaller vessels according to a conversion formula based on vessel length. Trip limits and trip frequency limits, which were already being used to restrict harvest rates on the major groundfish complexes, were also expected to reduce the incentive for "capital stuffing"

The SSC Report went on to define the MLRs for trawlers and "Capital stuffing"

MLRs during the window period varied by gear type as follows: trawl-9 landings of at least 500 pounds of non-whiting groundfish or 450 mt of non-whiting groundfish or 17 landings of at least 500 pounds of whiting or 3,750 mt of whiting:...

"Capital stuffing" pertains to the technological innovations and fishing practices that allow fishermen to increase their share of the allowable harvest in the race for fish. As these innovations and practices become more widespread, the competitive advantage they initially provided tends to dissipate, leading to additional rounds of innovation and higher costs for the fleet as a whole without a commensurate increase in harvest.

The SSC Report discussed the linkage between harvest capacity and permits:

Potential harvest capacity includes both unutilized (i.e., latent) and utilized capacity. Although limited entry has likely had the effect of "freezing" potential harvest capacity in the fishery at its 1994 level, the low MLRs used to qualify a permit virtually assured that a significant proportion of the potential harvest capacity initially admitted into the fishery consisted of latent capacity. Furthermore, the amount of time elapsed between the window period (i.e., the 1984-1988 period during which vessels would had to fish to qualify for a limited entry permit) and the year when limited entry was actually implemented (1994) increased the likelihood of permits being issued to vessels whose

Involvement in the groundfish fishery had waned by the time permits were actually issued.

Permit transferability per se has the advantage of flexibility, in that it allows the composition of the fishing fleet to adapt to changes in environmental, biological and economic conditions, and allows individual vessels to enter and exit in response to changes in their personal circumstances. However, since vessels are typically not interested in buying a permit unless they intend to use it and since marginally involved fishery participants (i.e., vessels comprising the latent capacity in the fishery) are typically the most willing to sell their permits, the presence of significant latent capacity almost inevitably assures the increase in realized fishing effort when permits are transferred. The establishment of an active whiting catcher-processor sector resulting from the transfer of permits from trawlers to catcher-processors reduced the amount of latent capacity in the trawl sector and did little to curtail the actual amount of fishing effort expended by trawlers. Transfers involving fixed gear vessels have likely resulted in increased fishing effort as well.

The SSC concludes its report requesting that the Council take deliberate action:

In other words, latent capacity is always available in the open access fishery and likely to remain high in the limited entry fishery, since permit holders are much more likely to retain their permits rather than allow them to lapse. Unless the Council takes deliberate action, a significant amount of capacity will remain in the groundfish fishery that can be mobilized at any sign of improved fishing opportunities. Given that fishing effort can easily outpace OYs even if the OYs were to increase to much higher levels, the current problems associated with low landings limits and short seasons will not go away unless latent capacity is permanently removed from the groundfish fishery.

In its Executive Memorandum to the Council, the SSC asserted that:

The Council should take immediate action to develop stringent capacity reduction programs, for all sectors of the West Coast groundfish fishery. Given the current moratorium on IFQs and the complexities of designing an IFQ system, IFQs are best viewed as a long term management strategy for West Coast groundfish. Other potential solutions include limited entry for the open access fishery and buyouts and/or permit stacking for the limited entry fishery should be explored immediately.

Forty permits had no recorded groundfish landings in 2002 and 2003.

Vessels that deliver to shore or to non-tribal motherships use these permits. Sometimes within a year or across years, two or more vessels use a given permit. We added preliminary PacFIN data for January-September 2003 to the Buyback Program Database which contains 199 -2002 fish ticket

data. We then organized the data by permit and developed a simple rule to define a "fished" permit. A fished permit is one where at least one pound of groundfish landed or delivered during the time the permit was valid. Below, we analyze these permits based on total pounds landed or delivered in 2002. (This analysis describes the 172 trawl permits that remain in the fishery. It does not include permits combined with other permits in 1998 (5), 1999 (1) and in 2003 (1) or the 10 permits associated with the catcher-processor fleet.)

Remaining Limited Entry Trawl Permits

Year	1998	1999	2000	2001	2002	2003
Fished	154	158	152	140	133	132
Not fished	18	14	20	32	40	40
Total	172	172	172	172	172	172

(Excludes 10 permits associated with Factory Trawlers)

Four permit owners did not fish their permits at all during the 1998 to 2003 period.

Only four permits recorded no landings consecutively between 1998-2003.

Number of Unfished Permits by Consecutive Period

1998-2003	4
1999-2003	7
2000-2003	13
2001-2003	24
2002-2003	33
2003	40

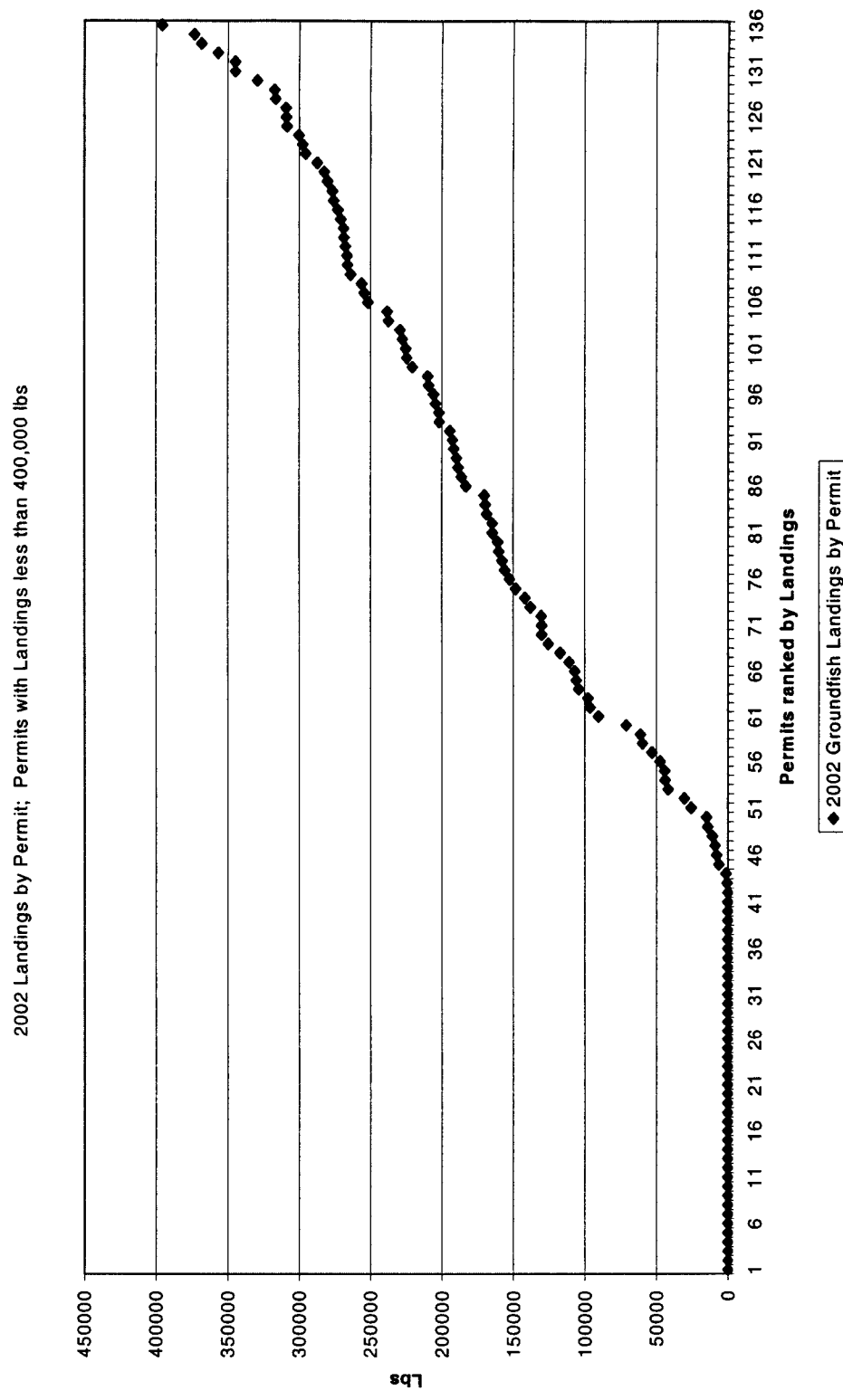
The number of unfished permits increased significantly after the year 2000 mirroring the decline in groundfish harvests.

Harvests of all groundfish or whiting by the entire limited entry trawl fleet (excluding catcher processors and tribal trawlers) fell off significantly during the 2001-2003 period compared with the 1998-2000 period. Pacific whiting harvests have fallen off significantly in the last two years, matching the trends in unfished permits during these two years. During this later period, nine species of fish were declared overfished, including whiting. In response, the Pacific Council and NOAA Fisheries set up large area closures and other measures to protect these fish.

Groundfish Harvests 1000 Tons						
Buyback and Non-Buyback Trawlers						
1000 metric Tons						
	Non-Whiting Shore	Whiting Shore	Total Shore	Whiting Non-Tribal Mothership	Groundfish Total	Whiting Total
1994	46	80	126	93	219	173
1995	50	75	125	41	166	115
1996	52	85	137	47	184	132
1997	47	87	135	50	185	138
1998	34	91	125	50	175	140
1999	33	87	120	48	167	135
2000	29	89	117	47	164	136
2001	25	73	99	36	135	109
2002	25	46	71	27	98	72
2003	22	55	78	26	104	81

During 2002, 56 permits had harvest levels less than 50,000 lbs.

The graph below plots permits against landings. (To avoid the scale effects associated with Pacific whiting permits, the plot excludes permits with more than 400,000 lbs.) There are no obvious break points on which to base a definition of a latent permit.



The table below classifies permits by groundfish harvest combining shoreside landings with non-tribal mothership deliveries. The owners of forty permits did not fish their permits in 2002. Thirty permits were not fished at all, and 10 permit owners fished species other than groundfish during the year (mainly crab and shrimp). Of the permits that were fished, ten permits had harvests ranging from one to 15,000 lbs. Finally, six permits had landings between 16,000 and 50,000 lbs.

2002 Harvests and Revenues for Remaining 172 Permits

Groundfish Range	Harvest	Number of Permits	Groundfish Total Lbs	Groundfish Total Revenue	Groundfish Average lbs/permit	Groundfish Average \$/permit	All Species Total Lbs	All Species Total Revenue
Low lbs	High lbs							
0	0	30	0	\$0	0	\$0	0	\$0
0	0	10	0	\$0	0	\$0	719,695	\$1,090,574
1	15,000	10	65,554	\$41,422	6,555	\$4,142	1,255,875	\$685,242
16,000	50,000	6	233,843	\$113,879	38,974	\$18,980	1,610,520	\$815,505
51,000	100,000	7	529,940	\$319,852	75,706	\$45,693	837,461	\$742,562
101,000	200,000	29	4,440,717	\$2,517,061	153,128	\$86,795	10,416,529	\$5,369,242
201,000	400,000	44	12,112,506	\$6,703,388	275,284	\$152,350	18,172,958	\$10,567,037
401,000	1,000,000	6	3,889,682	\$1,099,961	648,280	\$183,327	4,055,289	\$1,147,221
>1,000,000		30	152,446,116	\$8,548,965	5,081,537	\$284,966	154,794,826	\$10,373,211
Totals		172	173,718,358	\$19,344,528	1,009,990	\$112,468	191,863,153	\$30,790,594
All 2002 Permits		263	206,790,628	\$32,106,888	786,276	\$122,079	238,605,783	\$49,219,394
Buyback Permits		91	33,072,270	\$12,762,360	363,432	\$140,246	46,742,630	\$18,428,800

Some Permits may not be fished because of strategic planning.

Some of these permits may be unfished because of strategic planning by fishermen who keep their groundfish permits in case other fisheries they engage in decline. They may also be waiting for groundfish stocks to increase. For example, declining trends in the Pacific whiting fishery may account for 12 unfished permits used by the non-tribal mothership fleet. Projections for the 2004 whiting OY may return the whiting mothership to levels similar to those of 1998.

Motherships and their delivery vessels are typically closely tied. If the mothership chooses to remain in Alaska to process pollock, typically the allied delivery vessels do so too. Often, the delivery vessel fishes for Pacific groundfish using a permit owned by the mothership company.

Twenty-seven of the remaining 172 permits have been used as vessels engaging in the non-tribal mothership fishery over the period 1998 to 2003. Of these permits, eight were idle in 2003, 10 permits idle in 2002, and eight were idle in 2001. Over the period 1998 to 2003, annual non-tribal mothership harvests decreased from 50,000 tons to 26,000 tons. With the decline in harvests, the number of motherships taking part in the fishery also declined. In 1998, there were six motherships, whereas in 2003, there were only four. Starting in 2001, the mothership Golden Alaska stopped engaging in the fishery. Similarly, starting in 2002, the mothership Ocean Phoenix stopped taking part in the fishery.

In comparing the number of unique vessels (some vessels supply more than one mothership) over the period 1998 to 2003, it appears that 12 of the 40 unfished permits are unfished because of changes in the mothership whiting fishery. For perspective, during 1994, the first year of limited entry, there were nine major motherships employing 43 different delivery vessels to harvest 92,000 tons of Pacific whiting. Over the years 1998-2003, 31 different delivery vessels have participated in the fishery.

	Number of Delivery Vessels					
	1998	1999	2000	2001	2002	2003
Motherships						
Arctic Fjord	7	3	5	4	5	4
Arctic Storm	7	5	5	5	5	4
Excellence	4	4	5	7	4	4
Golden Alaska	4	4	4	0	0	0
Ocean Phoenix	7	6	8	7	0	0
Ocean Rover	2	3	2	3	2	2
Unique JV	24	23	23	20	11	12
New vessels that did not fish previously		2	3	1	0	1
						31 different vessels
Mothership deliveries	49705	47580	46710	35658	26106	26102

The ITQ Control Date and rising permit prices are discouraging the sale of latent permits.

On January 9, 2004, NOAA Fisheries published a November 6, 2003 control date notice for the Pacific groundfish fishery. The potential use of ITQ in the trawl fishery discourages the entry of new permit holders into the fishery and the sale of permits by existing permit holders. Current permit holders will be reluctant to sell their permits as they would be offering up their access to an IQ share. New permit holders that have entered the fishery may not see their new activities count toward the currently discussed trawl ITQ program. Currently discussed in the Pacific Council's ITQ Committee are ITQ allocation alternatives that would limit potential catch history periods to all or part of the 1994-2003 time period. Therefore any catch history developed after the November 6, 2003 ITQ Control Date will likely not count toward an ITQ share.

The Notice for the Pacific groundfish fishery (69FR1563), states the following:

"The control date for the trawl IQ program is intended to discourage increased fishing effort in the limited entry trawl fishery based on economic speculation while the Pacific Council develops and considers a trawl IQ program. Persons potentially eligible for IQ shares may include vessel owners, permit owners, vessel operators and crew. The control date announces to the public that the Pacific Council may decide not to count activities occurring after the control date toward determining a person's qualification for an initial allocation or determining the amount of initial allocation of quota shares. Groundfish landed from limited entry trawl vessels after November 6, 2003 may not be included in the catch history used to qualify for initial allocation in the trawl IQ program."

The following table shows how the Buyback Program has affected permit prices. According to the "Permit News" section of the December 2003 *Fishermen's News*;

"...The market for "A" trawl permits took off right after the buyback results were announced. Values have at least doubled, and prices are around \$7000-\$8000/pt."

The January 2004 issue of the *Fishermen's News* indicates how the control date on ITQ's is affecting the permit market:

"Coastal "A" Trawl permits have become the hot item. With the buyback a done deal and participants set to receive funds any day now, there is all of a sudden a great deal of interest from people that are looking to get back in. There haven't been very many permits available, but some have sold. Prices have varied from around \$7,000-\$10,000/pt. The market is complicated somewhat by the potential for some sort of IFQ program in the future. Buyers want permits with history, but several of the permits that have been available have been inactive for the past few years."

The February 2003 issue of the *Fishermen's News* continues to report increasing prices but the market may be cooling down:

"Coastal "A" trawl permits are still in demand, but the post-buyback furor has settled somewhat. A few permits are available, and look to spend around \$10,000/pt."

Permit Prices-As reported by Dock Street Broker's (Seattle, Washington) "Permit News" Report:

	\$/Point
January 1998	\$6,000-\$7,000
January 1999	\$6,000-\$6,500
January 2000	\$5,000-\$6,000
January 2001	\$3,000-\$4,000
January 2002	\$2,000-\$3,000
January 2003	\$2,000-\$3,000
February 2003	\$2,000-\$3,000
March 2003	\$3,000-\$3,000
April 2003	\$3,000-\$3,000
May 2003	\$3,000-\$3,000
June 2003	\$3,000-\$3,000
July 2003	\$3,000-\$3,000
August 2003	\$3,000-\$3,000
September 2003	\$3,000-\$3,000
October 2003	\$3,000-\$3,000
November 2003	\$3,000-\$3,000
December 2003	\$7,000-\$8,000
January 2004	\$7,000-\$10,000
February 2004	\$6,000-\$10,000
March 2004	\$6,000-10,000

(*Fishermen's News*, various issues-dates are publication dates)

Listed as sold on the 02/02/04 edition of the www.permitmaster.com website was a 32-point trawl permit (80 feet) for \$250,000 and on the www.dockstreetbrokers.com website a 10-point (50 feet) for \$200,000. (This later offer appears contrary to the \$7000-\$8000 point estimate mentioned above.) Dockstreet Brokers sold a second permit for 52 feet (11 points) for \$105,000 for an average of \$9500 per point (02/11/2004 listing).

For someone to enter the fishery, he probably needs to buy a federal permit and a vessel. He probably also needs to buy some state permits to make the vessel profitable. The Buyback Program purchased 91 groundfish permits and vessels and 121 state permits for crab and shrimp. The median price paid out for a Buyback package was about \$400,000. This implies that for a new entrant into the fishery, the costs of entering the fishery could be on the order of about \$400,000.

The reference to "A" trawl is to distinguish the permit from a provisional "B" permit which no longer exists. The reference to points reflects the capacity rating scale associated with the permit. The capacity rating scale is a projection of capacity against vessel length. It is a nonlinear relationship

:

Length in Feet	Capacity (points)
33	3.50
40	5.66
50	9.88
60	15.59
70	22.92
80	32.00
90	42.96
100	55.90
110	70.94
120	88.18

This capacity rating schedule controls capacity in the fleet. To enter a new vessel into the fishery, the owner needs to buy (take out) a sufficient number of "points" through the purchase of existing permits so overall capacity in the fleet is not increased. Currently the major use of this schedule is used by fishermen who wish to lengthen their vessel and need to combine permits. As it bears on the cost on entering the fishery, the following example is illustrative.

A vessel owner wants to increase his vessel by 10 feet. His vessel and associated Pacific groundfish permit are now 70 feet. A limited entry trawl permit with a 70-foot endorsement has a capacity rating of 23; a limited entry trawl permit with an 80-foot endorsement has a rating of 32 points. Therefore, the vessel owner needs to buy a permit of enough length to cover the nine points needed. To get the added length, the vessel owner may first consider buying the smallest permit in the fleet-33 feet. He rejects this permit as it would only provide 3.5 points. To get nine points he must purchase a 48-foot permit or greater. At \$7,000 per point, this would imply that to lengthen his vessel, he would need to spend at least \$63,000.

The average remaining permit has an endorsed length of 70 feet and a capacity rating of about 23 points. At current prices of \$6,000 to \$10,000 per point, the average permit is worth an estimated \$138,000 to \$230,000.

Permit Data-Endorsed Length:

Permit Endorsed Length (feet)	All Permits Number	Buyback Permits Number	Remaining Permits Number	% Reduction
33-40	5	0	5	0%
41-50	26	5	21	19%
51-60	73	32	41	44%
61-70	40	14	26	35%
71-80	71	33	38	46%
81-90	27	4	23	15%
91-100	7	1	6	14%
101-110	8	2	6	25%
111+	6	0	6	0%
Total	263	91	172	35%
Total Length Feet	18065	6089	11976	34%
Average	69	67	70	
Median	67	66	69	
Total "points"	6449	1984	4465	31%

Fifteen trawl permits have changed hands since October 1, 2003. Six had 2002 harvests. Nine did not.

Since October 1, 2003 and through March, 6, 2004, the NMFS NWR transferred 15 permits to new owners. Not all of these permits were inactive. They have the following characteristics:

- * 9 had no landings in 2002
- * 6 had landings in 2002
- * 3 had landings greater than 50,000 lbs.
- * 5 Buyback participants purchased permits
- * 8 permits were bought by buyback participants
- * 3 permits were bought by non-buyback fishermen
- * 5 permits were sold to seafood processors
- * 1 permit was combined with another permit.

A Buyback Program participant has recently indicated to the NMFS NWR Permits Office that he may buy two permits and combine them. If this transaction is completed, 17 permits will have changed hands. Because of two permit combinations, the remaining number of permits will eventually be 170. Four of these 17 permits were associated with 2002 harvests greater than 50,000 lbs.

Knowing there is a control date on ITQ's why buy a permit?

- * Processors who lost vessels may want to assure supply of fish to the processing plant. One processor lost all of his delivery vessels to the buyback.
- * Processors may be buying permits to expand their market share.
- * Permit holders who were ineligible to take part in the Buyback Program are willing to sell their permits because of increased prices.
- * Some buyers may be speculating the Council will relax its rules on ITQs.
- * Some buyers are buying permits to obtain potential ITQ history.
- * Some buyers may calculate that it's profitable to buy a permit and fish it during the three to five years it may take to implement ITQs. In 2002, the average active permit (total =223) averaged \$122,000 in groundfish revenues. If the 2002 groundfish fishery was carried out by the remaining 172 permits, the average groundfish revenue per permit would increase to about \$187,000.

Activating some permits may be helpful to some fishing communities. How has the Buyback Program affected fishing communities?

To help answer this question, we developed the three tables shown below using 2002 ex-vessel revenue data and port data developed by Dr. Jim Hastie (NMFS NWC). The first table shows by port

the change in the number of vessels because of the Buyback Program. The second and third tables show, respectively, by port groups, the share of groundfish revenues and all-species revenues associated with buyback vessels. All species revenues include groundfish, crab, shrimp, and all other species landed by groundfish trawlers under permits issued in 2002. Dr. Jim Hastie identified two primary groundfish ports for each permit—one associated with non-whiting groundfish landings and one for whiting landings. For this analysis, information on the two primary ports was combined into a single primary port. If whiting landings are greater than 40 percent of the permit's total revenues (all species), we assigned the whiting primary port to the permit. If whiting landings were less than 40 percent of the permit's total revenues, we assigned the non-whiting primary port to the permit. There were also two at-sea whiting permits that had no shoreside landings, and these were assigned to a state but not to a port.

The Buyback Program affected almost all the groundfish ports and their communities. Few ports were unaffected. The ports of Eureka and Bellingham were the most affected with Bellingham losing all of its vessels to the Buyback Program. As pointed out previously, 40 of the remaining 172 permits, were idle in 2002. As indicated in these tables, four of the 91 Buyback permits were also idle in 2002. In terms of 2002 groundfish ex-vessel revenues, Buyback Program vessels accounted for 40 percent of the \$32 million of landed by all groundfish trawlers either on shore or delivered to non-tribal motherships. These vessels also account for a similar share percentage of the \$49 million in all species revenues.

Affected communities can respond to the potential loss in revenue and income from the Buyback Program in several ways. First, the remaining vessels in the Port can expand their effort to replace the revenues associated with Buyback Program participants to the extent that trip limits allow. Second, active vessels can be hired away from other communities. Finally, a local processor or fisherman can buy and fish an inactive permit. Available information on permit transfers suggests that three of the permits will be used in the port of Bellingham.

Community Effects of the Buyback		2002			
Primary Port	State	Active Vessels	Buyback Vessels	Remaining Vessels	Percent Reduction
Avila	CA	7	4	3	-57%
Bodega Bay	CA	2	1	1	-50%
Fort Bragg	CA	13	4	9	-31%
Crescent City	CA	16	14	2	-88%
Santa Cruz	CA	2	0	2	0%
Eureka	CA	23	14	9	-61%
Monterey	CA	4	0	4	0%
Moss Landing	CA	8	4	4	-50%
Morrow Bay	CA	2	0	2	0%
Princeton/Half Moon Bay	CA	11	1	10	-9%
San Francisco	CA	4	1	3	-25%
Astoria	OR	40	13	27	-33%
Brookings	OR	9	5	4	-56%
Coos Bay	OR	24	8	16	-33%
Florence	OR	1	0	1	0%
Newport	OR	25	6	19	-24%
Tillamook/Garibaldi	OR	1	0	1	0%
Portland/Seattle	OR/WA	2	0	2	0%
Bellingham Way	WA	4	4	0	-100%
Blaine	WA	4	1	3	-25%
Ilwaco	WA	1	0	1	0%
Port Angeles	WA	7	4	3	-57%
Wesport	WA	9	3	6	-33%
All Ports	WA	26	12	14	-46%
All Ports	OR	101	32	69	-32%
All Ports	CA	92	43	49	-47%
Permits with no groundfish landings		44	4	40	-9%
Totals	All	263	91	172	-35%

		2002 Ex-vessel		Groundfish Revenues	
		Total All Vessels	Buyback Vessels	Remaining Vessels	Percent Reduction
Bodega Bay/Princeton-Half Moon Bay/San Francisco	CA	\$2,129,512	\$359,738	\$1,769,774	-17%
Crescent City/Eureka/Fort Bragg	CA	\$6,695,023	\$3,892,475	\$2,802,548	-58%
Santa Cruz/Monterey/Moss Landing	CA	\$1,199,239	\$396,258	\$802,981	-33%
Avila/Morrow Bay	CA	\$1,073,632	\$686,430	\$387,202	-64%
Brookings	OR	\$841,148	\$548,289	\$292,859	-65%
Coos Bay/Florence	OR	\$3,075,793	\$1,111,435	\$1,964,358	-36%
Newport/Mothership	OR	\$5,038,353	\$961,614	\$4,076,739	-19%
Astoria/Tillamook	OR	\$6,359,037	\$2,247,633	\$4,111,404	-35%
Bellingham Way/Blaine/Port Angeles	WA	\$3,368,541	\$2,082,658	\$1,285,883	-62%
Ilwaco/Westport/Mothership	WA	\$2,326,610	\$475,830	\$1,850,780	-20%
Total All Ports		\$32,106,888	\$12,762,360	\$19,344,528	-40%
Total	CA	\$11,097,406	\$5,334,901	\$5,762,505	-48%
Total	OR	\$15,314,331	\$4,868,971	\$10,445,360	-32%
Total	WA	\$5,695,151	\$2,558,488	\$3,136,663	-45%
Total All States		\$32,106,888	\$12,762,360	\$19,344,528	-40%

2002 Ex-vessel All Species Revenues

	Total All Vessels	Buyback Vessels	Remaining Vessels	Percent Reduction
Bodega Bay/Princeton-Half Moon Bay/San Francisco	CA			
Crescent City/Eureka/Fort Bragg	CA	\$519,712	\$2,861,071	-15%
Santa Cruz/Monterey/Moss Landing	CA	\$4,844,543	\$4,116,129	-54%
Avila/Morrow Bay	CA	\$414,203	\$1,147,038	-27%
Brookings	CA	\$862,384	\$826,311	-51%
Coos Bay/Florence	OR	\$1,324,372	\$1,124,412	-54%
Newport/Mothership	OR	\$2,775,972	\$3,819,813	-42%
Astoria/Tillamook	OR	\$1,478,007	\$5,233,724	-22%
Bellingham Way/Blaine/Port Angeles	OR	\$3,030,195	\$6,309,176	-32%
Ilwaco/Westport/Mothership	WA	\$2,276,191	\$1,294,255	-64%
Non-fish landings-1	WA	\$903,221	\$2,968,091	-23%
Total All Ports	??	\$0	\$1,090,574	0%
		\$18,428,800	\$30,790,594	-37%
Total	CA	\$6,640,842	\$8,950,549	-43%
Total	OR	\$8,608,546	\$16,487,125	-34%
Total	WA	\$3,179,412	\$4,262,346	-43%
Non-fish landings-1	??	\$0	\$1,090,574	
Total All States and Non-Fish landings		\$18,428,800	\$30,790,594	-37%

Comparison of "Latent Permit" Alternatives and Projection

For 2004, after considering recent permit transfers and the potential for increased harvests of whiting, about 30 "latent" permits remain in the fishery.

Minimum landing requirements (MLR) used in selecting the first recipients of limited entry permits usually combine elements of time, (usually a number of years) and landings or deliveries (pounds landed or delivered). For example, the minimum landings requirement (MLR) used to qualify trawl vessels for the current limited entry system is the following:

"The current owner of a vessel which met the MLRs between July 11, 1984 and August 1, 1988 (the window) may qualify for an "A" gear endorsement. The MLRs are as follows:

Trawl: At least 9 days in which over 500 pounds of any groundfish species caught with groundfish trawl gear except Pacific whiting are landed or delivered or 450 mt of landings or deliveries of any groundfish species caught with groundfish trawl gear except Pacific whiting, or 17 days in which over 500 pounds of Pacific whiting caught with groundfish trawl gear are landed or delivered, or 3,750 mt of landings or deliveries of Pacific whiting caught with groundfish trawl gear." (Amendment 6, Pacific Groundfish FMP, p 2-3

"Latent" Definition-Alternative 1

Similarly, any definition of "latent" would typically have the same elements. Under a simple MLR of 1 pound a year, 40 permits were latent in 2002 and 2003, compared to the 20 or less latent permits during the 1998-2000 period. The increase in unfished permits is likely the result of declining trends in groundfish harvest, especially whiting harvest. In expanding this MLR to one that applies to consecutive years, four permits may be deemed "chronically latent" as they were not fished at all during 1998 to 2003. Twenty-four permits may be deemed latent as they were not fished at all during the entire 2000-2003 period. Finally, forty permits may be deemed "recently latent" as they were not fished in 2002. A slightly different set of forty permits was not fished in 2003. As this is a lenient MLR (needing only 1 pound of landing to in each of these three years to meet this requirement) and using the 2001-2003 time period, perhaps a lower bound on the number of latent permits is 24 permits.

Number of Unfished Permits by Consecutive Period

1998-2003	4
1999-2003	7
2000-2003	13
2001-2003	24
2002-2003	33
2003	40

"Latent" Definition Alternative 2

An alternative way of defining a latent permit is to define a latent permit as one where less than 50,000 lbs. were landed in a given year. This is an arbitrary choice based on organizing permits according to the following categories of harvest based on 2002 data.

Groundfish Range	Harvest	Number of	Groundfish Total	Groundfish Total	Groundfish Average	Groundfish Average
Low lbs	High lbs	Permits	Lbs	Revenue	lbs/permit	\$/permit
0	0	30	0	\$0	0	\$0
0	0	10	0	\$0	0	\$0
1	15,000	10	65,554	\$41,422	6,555	\$4,142
16,000	50,000	6	233,843	\$113,879	38,974	\$18,980
51,000	100,000	7	529,940	\$319,852	75,706	\$45,693
101,000	200,000	29	4,440,717	\$2,517,061	153,128	\$86,795
201,000	400,000	44	12,112,506	\$6,703,388	275,284	\$152,350
401,000	1,000,000	6	3,889,682	\$1,099,961	648,280	\$183,327
>1,000,000		30	152,446,116	\$8,548,965	5,081,537	\$284,966
Totals		172	173,718,358	\$19,344,528	1,009,990	\$112,468

There were 40 permits with no recorded groundfish landings in 2002 and another 10 with harvests between 1 and 15,000 lbs. Another 6 permits had landing between 16,000 and 50,000 lbs. The decision was not to define as latent the 7 permits within the 51,000 to 100,000 lb. category. The average revenue per permit for permits in this category is significant - \$75,706. Assuming a crew share of 39%, permits in this category earn enough to pay a crew member wages equivalent to that of a male living in Astoria, Oregon one of the key groundfish ports. (According to 2000 U.S. Census data, the median income for a household in Astoria is \$33,011, and the median income for a family is \$41,446. Males have a median income of \$29,813 versus \$22,121 for females. The per capita income for the city is \$18,759.)

In 2002, 56 permits had associated harvests less than 50,000 lbs. Since October 1, 2003, 15 permits have changed hands with three having harvests greater than 50,000 lbs. in 2002. Therefore, under this definition, permit buyers collectively have bought 12 "latent" permits. Because they were purchased, we can expect that these permits will become active. The increase in the whiting resource is also expected to activate an additional 12 permits by existing owners for use in the mothership fishery. Subtracting these two sets of permits from the 56 permits, leaves an estimate of 32 latent permits. It is not clear if any of the 12 latent permits purchased will be used in the whiting mothership fishery. Therefore, as a buffer against a potential overlap between these two sets of permits, the two permits that may soon be purchased and combined are not factored into the estimate.

Alternative Comparison

Therefore comparing these two alternatives gives a sense there may be 24 to 32 latent permits in the fishery. In simpler terms, there may be "something on the order of" 30 latent permits remaining in the fishery. If these permits were removed, this would bring the fishery to 142 permits.

Appendix 1

Adapted from: Consolidated Appropriations Resolution 2003, Public Law 108-7
Division N--Emergency Relief and Offsets
Title V--Fisheries Disasters
(Page H.J. Res.2--539)

TITLE V--FISHERIES DISASTERS

Sec. 501. (a) Fisheries Disasters.--In addition to amounts appropriated or otherwise made available, \$100,000,000 is appropriated to the Department of Commerce for fisheries disaster assistance. Not more than 5 percent of such funds may be used for administrative expenses, and no funds may be used for lobbying activities or representational expenses.

....

(c) Northeast and West Coast.--\$10,000,000 shall be made to conduct a voluntary fishing capacity reduction program in the Northeast multispecies fishery and \$10,000,000 shall be made available to conduct a voluntary fishing capacity reduction program in the West Coast groundfish fishery. Such sums shall supplement the voluntary capacity reduction program authorized for the fishery in section 211 of Public law 107-206 and be consistent with 312(b) of the Magnuson-Stevens Fishery Conservation and Management Act and the requirements relating to the capacity program in section 211 of Public Law 107-206 that shall--

(1) permanently revoke all fishery licenses, fishery permits, area and species endorsements and any other fishery privileges issued to a vessel or vessels (or to persons on the basis of their operation of that vessel or vessels) removed under the program; and

(2) ensure that vessels removed under the program are made permanently ineligible to participate in any fishery worldwide, and that the owners of such vessels will operate only under the United States flag or be scrapped as a reduction vessel pursuant to section 600.1011(c) of title 50, Code of Federal Regulations.

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Conference Report to Accompany H.J. Res. 2

Adapted from 108th Congress House Representatives, Report 108-10 (February 13 (legislative day, February 12), 2003): MAKING FURTHER CONTINUING APPROPRIATIONS FOR THE FISCAL YEAR 2003, AND FOR OTHER PURPOSES (page 70)

SEC. 212 . (a) The Secretary of Commerce shall implement a fishing capacity reduction program for the West Coast groundfish fishery pursuant to section 212 of P.L. 107-206 and 16 U.S.C. 1861a(b)-(e) except that: the program may apply to multiple fisheries, except that within 90 days after the date of enactment of this Act, the Secretary shall publish a public notice in the Federal Register and issue an invitation to bid for reduction payments that specifies the contractual terms and conditions under which bids shall be made and accepted under this section; except that: Section 144(d)(1)(K)(3) of title I, division B of P.L. 106-554 shall apply to the program implemented by this section.

(b) A reduction fishery is eligible for capacity reduction under the program implemented under this section; except that no vessel harvesting and processing whiting in the catcher-processors sector (section 19.660.323(a)(4)(A) of title 50, Code of Federal Regulations) may participate in any capacity reduction referendum or industry fee established under this section.

(c) A referendum on the industry fee system shall occur after bids have been submitted, and such bids have been accepted by the Secretary, as follows: members of the reduction fishery, and persons who have been issued Washington, Oregon, or California Dungeness crab and Pink shrimp permits, shall be eligible to vote in the referendum to approve an industry fee system; referendum votes cast in each fishery shall be weighted in proportion to the debt obligation of each fishery, as calculated in subsection (f) of this section; the industry fee system shall be approved if the referendum votes cast in favor of the proposed system constitute a simple majority of the participants voting; except that notwithstanding 5 U.S.C. 553 and 16 U.S.C. 1861a(e), the Secretary shall not prepare or publish proposed or final regulations for the implementation of the program under this section before the referendum is conducted.

(d) Nothing in this section shall be construed to prohibit the Pacific Fishery management Council from recommending, or the Secretary from approving, changes to any fishery management plan, in accordance with applicable law; or the Secretary from promulgating regulations (including regulations governing this program), after an industry fee system has been approved by the reduction fishery.

(e) The Secretary shall determine, and state in the public notice published under paragraph (a), all program implementation aspects the Secretary deems relevant

(f) Any bid submitted in response to the invitation to bid issued by the Secretary under this section shall be irrevocable; the Secretary shall use a bid acceptance procedure that ranks each bid in accordance with this paragraph and with additional criteria, if any, established by the

Secretary: for each bid from a qualified bidder that meets the bidding requirements in the public notice or the invitation to bid, the Secretary shall determine a bid score by dividing the bid's dollar amount by the average annual total ex-vessel dollar value of landings of Pacific groundfish, Dungeness crab, and Pink shrimp based on the 3 highest total annual revenues earned from such stocks that the bidder's reduction vessel landed during 1998, 1999, 2000, or 2001. For purposes of this paragraph, the term ``total annual revenue" means the revenue earned in a single year from such stocks. The Secretary shall accept each qualified bid in rank order of bid score from the lowest to the highest until acceptance of the next qualified bid with the next lowest bid score would cause the reduction cost to exceed the reduction loan's maximum amount. Acceptance of a bid by the Secretary shall create a binding reduction contract between the United States and the person whose bid is accepted, the performance of which shall be subject only to the conclusion of a successful referendum, except that a person whose bid is accepted by the Secretary under this section shall relinquish all permits in the reduction fishery and may Dungeness crab and Pink shrimp permits issued by Washington, Oregon, or California; except that the Secretary shall revoke the Pacific groundfish permit, as well as all Federal fishery licenses, fishery permits, area, and species endorsements, and any other fishery privileges issued to a vessel or vessels (or to persons on the basis of their operation or ownership of that vessel or vessels) removed under the program.

(g) The Secretary shall establish separate reduction loan sub-amounts and repayment fees for fish sellers in the reduction fishery and for fish sellers in each of the fee-share fisheries by dividing the total ex-vessel dollar value during the bid scoring period of all reduction vessel landings from the reduction fishery and from each of the fee-share fisheries by the total such value of all such landings for all such fisheries; and multiplying the reduction loan amount by each of the quotients resulting from each of the divisions above. Each of the resulting products shall be the reduction loan sub-amount for the reduction fishery and for each of the fee-share fisheries to which each of such products pertains; except that, each fish seller in the reduction fishery and in each of the fee-share fisheries shall pay the fees required by the reduction loan sub-amounts allocated to it under this paragraph; except that, the Secretary may enter into agreements with Washington, Oregon, and California to collect any fees established under this paragraph.

(h) Notwithstanding 46 U.S.C. App. 1279(b)(4), the reduction loan's term shall not be less than 30 years.

(i) It is the sense of the Congress that the States of Washington, Oregon, and California should revoke all relinquishment permits in each of the fee-share fisheries immediately after reduction payment, and otherwise to implement appropriate State fisheries management and conservation provisions in each of the fee-share fisheries that establishes a program that meets the requirements of 16 U.S.C. 141861a(b)(1)(B) as if it were applicable to fee-share fisheries.

(j) The term ``fee-share fishery" means a fishery, other than the reduction fishery, whose members are eligible to vote in a referendum for an industry fee system under paragraph (c). The term ``reduction fishery" means that portion of a fishery holding limited entry fishing permits endorsed for the operation of trawl gear and issued under the Federal Pacific Coast Groundfish Fishery Management Plan.

MAGNUSON ACT

SEC. 312. TRANSITION TO SUSTAINABLE FISHERIES[7] 16 U.S.C. 1861a

(a) FISHERIES DISASTER RELIEF.--

(1) At the discretion of the Secretary or at the request of the Governor of an affected State or a fishing community, the Secretary shall determine whether there is a commercial fishery failure due to a fishery resource disaster as a result of--

(A) natural causes;

(B) man-made causes beyond the control of fishery managers to mitigate through conservation and management measures; or

(C) undetermined causes.

(2) Upon the determination under paragraph (1) that there is a commercial fishery failure, the Secretary is authorized to make sums available to be used by the affected State, fishing community, or by the Secretary in cooperation with the affected State or fishing community for assessing the economic and social effects of the commercial fishery failure, or any activity that the Secretary determines is appropriate to restore the fishery or prevent a similar failure in the future and to assist a fishing community affected by such failure. Before making funds available for an activity authorized under this section, the Secretary shall make a determination that such activity will not expand the size or scope of the commercial fishery failure in that fishery or into other fisheries or other geographic regions.

(3) The Federal share of the cost of any activity carried out under the authority of this subsection shall not exceed 75 percent of the cost of that activity.

(4) There are authorized to be appropriated to the Secretary such sums as are necessary for each of the fiscal years 1996, 1997, 1998, and 1999.

(b) FISHING CAPACITY REDUCTION PROGRAM.--

(1) The Secretary, at the request of the appropriate Council for fisheries under the authority of such Council, or the Governor of a State for fisheries under State authority, may conduct a fishing capacity reduction program (referred to in this section as the 'program') in a fishery if the Secretary determines that the program--

(A) is necessary to prevent or end overfishing, rebuild stocks of fish, or achieve measurable and significant improvements in the conservation and management of the fishery;

(B) is consistent with the Federal or State fishery management plan or program in effect for such fishery, as appropriate, and that the fishery management plan--

- (i) will prevent the replacement of fishing capacity removed by the program through a moratorium on new entrants, restrictions on vessel upgrades, and other effort control measures, taking into account the full potential fishing capacity of the fleet; and
- (ii) establishes a specified or target total allowable catch or other measures that trigger closure of the fishery or adjustments to reduce catch; and

(C) is cost-effective and capable of repaying any debt obligation incurred under section 1111 of title XI of the Merchant Marine Act, 1936.

(2) The objective of the program shall be to obtain the maximum sustained reduction in fishing capacity at the least cost and in a minimum period of time. To achieve that objective, the Secretary is authorized to pay--

(A) the owner of a fishing vessel, if such vessel is (i) scrapped, or (ii) through the Secretary of the department in which the Coast Guard is operating, subjected to title restrictions that permanently prohibit and effectively prevent its use in fishing, and if the permit authorizing the participation of the vessel in the fishery is surrendered for permanent revocation and the owner relinquishes any claim associated with the vessel and permit that could qualify such owner for any present or future limited access system permit in the fishery for which the program is established; or

(B) the holder of a permit authorizing participation in the fishery, if such permit is surrendered for permanent revocation, and such holder relinquishes any claim associated with the permit and vessel used to harvest fishery resources under the permit that could qualify such holder for any present or future limited access system permit in the fishery for which the program was established.

(3) Participation in the program shall be voluntary, but the Secretary shall ensure compliance by all who do participate.

(4) The Secretary shall consult, as appropriate, with Councils, Federal agencies, State and regional authorities, affected fishing communities, participants in the fishery, conservation organizations, and other interested parties throughout the development and implementation of any program under this section.

(c) PROGRAM FUNDING.--

(1) The program may be funded by any combination of amounts--

(A) available under clause (iv) of section 2(b)(1)(A) of the Act of August 11, 1939 (15 U.S.C.

713c-3(b)(1)(A); the Saltonstall-Kennedy Act);

(B) appropriated for the purposes of this section;

(C) provided by an industry fee system established under subsection (d) and in accordance with section 1111 of title XI of the Merchant Marine Act, 1936; or

(D) provided from any State or other public sources or private or non-profit organizations.

(2) All funds for the program, including any fees established under subsection (d), shall be paid into the fishing capacity reduction fund established under section 1111 of title XI of the Merchant Marine Act, 1936.

(d) INDUSTRY FEE SYSTEM.--

(1) (A) If an industry fee system is necessary to fund the program, the Secretary, at the request of the appropriate Council, may conduct a referendum on such system. Prior to the referendum, the Secretary, in consultation with the Council, shall--

(i) identify, to the extent practicable, and notify all permit or vessel owners who would be affected by the program; and

(ii) make available to such owners information about the industry fee system describing the schedule, procedures, and eligibility requirements for the referendum, the proposed program, and the amount and duration and any other terms and conditions of the proposed fee system.

(B) The industry fee system shall be considered approved if the referendum votes which are cast in favor of the proposed system constitute a two-thirds majority of the participants voting.

(2) Notwithstanding section 304(d) and consistent with an approved industry fee system, the Secretary is authorized to establish such a system to fund the program and repay debt obligations incurred pursuant to section 1111 of title XI of the Merchant Marine Act, 1936. The fees for a program established under this section shall--

(A) be determined by the Secretary and adjusted from time to time as the Secretary considers necessary to ensure the availability of sufficient funds to repay such debt obligations;

(B) not exceed 5 percent of the ex-vessel value of all fish harvested from the fishery for which the program is established;

(C) be deducted by the first ex-vessel fish purchaser from the proceeds otherwise payable to the seller and accounted for and forwarded by such fish purchasers to the Secretary in such manner as the Secretary may establish; and

(D) be in effect only until such time as the debt obligation has been fully paid.

(e) IMPLEMENTATION PLAN.--

(1) The Secretary, in consultation with the appropriate Council or State and other interested parties, shall prepare and publish in the Federal Register for a 60-day public comment period an implementation plan, including proposed regulations, for each program. The implementation plan shall--

(A) define criteria for determining types and numbers of vessels which are eligible for participation in the program taking into account characteristics of the fishery, the requirements of applicable fishery management plans, the needs of fishing communities, and the need to minimize program costs; and

(B) establish procedures for program participation (such as submission of owner bid under an auction system or fair market-value assessment) including any terms and conditions for participation which the Secretary deems to be reasonably necessary to meet the goals of the program.

(2) During the 60-day public comment period--

(A) the Secretary shall conduct a public hearing in each State affected by the program; and

(B) the appropriate Council or State shall submit its comments and recommendations, if any, regarding the plan and regulations.

(3) Within 45 days after the close of the public comment period, the Secretary, in consultation with the appropriate Council or State, shall analyze the public comment received and publish in the Federal Register a final implementation plan for the program and regulations for its implementation. The Secretary may not adopt a final implementation plan involving industry fees or debt obligation unless an industry fee system has been approved by a referendum under this section.

September 30, 2003

Dear Groundfish Referendum Voter:

I enclose a ballot for your vote in the Pacific Coast groundfish buyback referendum. Our records indicate that you're the holder or owner of record of the fishing permit specified on the enclosed ballot, and this qualifies you to one vote.

The referendum determines whether voters approve or disapprove the post-buyback landing fees necessary to repay a \$36 million buyback loan financing about 78% of the buyback's \$46 million maximum cost (a \$10 million appropriation pays for the remainder).

Please note carefully:

● ***You may not submit your vote to us before October 15, 2003.***

● ***For your vote to be effective, you must complete the enclosed ballot and return it to us in the enclosed envelope in time for us to receive it not later than October 29, 2003.***

You may return the completed ballot to us by U.S. mail, overnight delivery, or any other method you choose. Whatever method you choose, please put the ballot in the enclosed envelope.

If you have more than one permit qualifying you to vote, you'll receive an additional ballot for each additional permit. We'll *separately* mail you one ballot for each permit qualifying you to vote. You're qualified to vote once for each of your groundfish trawl permits and once again for each of your California, Oregon, or Washington Dungeness crab or pink shrimp permits. We'll weight each vote as the table in item number twelve below indicates.

For further details about the referendum and related matters, please see the letter I sent you on July 30, 2003.

The remainder of this letter concerns the buyback bidding results, which may effect how you want to vote. The following summarizes the bidding results:

(1) How many bids in what amount did we receive?

108 bids totaling \$59,786,471.

(2) How many bids in what amount may we accept?

We may accept the lowest scoring bids until accepting the next lowest scoring bid would cause the buyback to exceed its maximum \$46 million cost. Consequently, there are 92 acceptable bids for

\$45,752,471.

(3) How many vessels do the acceptable bids cause to be permanently removed from all fishing?

92 vessels.

(4) How many fishing permits do the acceptable bids cause to be relinquished, how many are in the seven fee paying fisheries, and what percentage of the total existing permits is this?

240 permits will be relinquished. 213 of these permits involve the seven fisheries subject to repaying the buyback loan (the other 27 involved other Federal fisheries other). The 213 permits are distributed among the seven fisheries fee paying fisheries as follows:

FISHERY	PERMITS IN EACH FISHERY		
	NUMBER	NUMBER RELINQUISHED	PERCENTAGE OF TOTAL EXISTING
Groundfish ¹	263	92	34.98%
CA crab	632	23	3.64%
CA shrimp	77	31	40.26%
OR crab	443	10	2.26%
OR shrimp	185	40	21.62%
WA crab	232	3	1.29%
WA shrimp	109	14	12.84%
Total	1,941	213	-

(5) During the four years from 1998 through 2001, what was the *average*, annual, ex-vessel value of fish landed in each of the seven fisheries by the 92 vessels and 213 permits in the acceptable bids, and what percentage of the total value in each fishery is this?

FISHERY	AVERAGE ANNUAL VALUE IN EACH FISHERY
---------	--------------------------------------

¹ CA, OR, and WA trawl fishery, excluding whiting catcher/processors (which were unqualified to bid).

	VALUE REMOVED	FISHERY'S TOTAL VALUE	PERCENTAGE OF TOTAL VALUE REMOVED
Groundfish:			
• <i>Excluding</i> whiting	\$15,561,899	\$33,800,713	46.04%
• <i>Including</i> whiting	\$15,972,354	\$43,799,118	36.47%
CA crab	\$1,302,847	\$14,955,003	8.71%
CA shrimp	\$376,288	\$1,267,120	29.70%
OR crab	\$763,259	\$19,657,008	3.88%
OR shrimp	\$1,243,970	\$7,628,189	16.31%
WA crab	\$206,185	\$18,228,037	1.13%
WA shrimp	\$144,777	\$1,374,177	10.54%
Total	\$20,009,680	-	-

(6) *Prospectively*, what portion of a nearly \$36 million buyback loan would each of the seven fisheries repay, and what percentage of the projected post-buyback landing value in each fishery would the *initial* loan repayment fee be?

FISHERY	LOAN PORTION	LANDING FEE PERCENTAGE
Groundfish	\$28,538,743	5.00%
CA crab	\$2,327,872	1.28%
CA shrimp	\$672,336	4.35%
OR crab	\$1,363,760	0.57%
OR shrimp	\$2,222,675	2.39%
WA crab	\$368,403	0.17%
WA shrimp	\$258,682	1.54%
Total	\$35,752,471	-

(7) *All other things being equal*, what's the relationship in each of the seven fisheries between the annual loan repayment expense and the extra average ex-vessel landing value *potentially*

available each year to post-buyback vessels in each fishery?

FISHERY	TOTAL ANNUAL EXPENSE OF REPAYING LOAN	EXTRA AVERAGE ANNUAL EX-VESSEL LANDING VALUE AVAILABLE TO POST-BUYBACK VESSELS	EXTRA LANDING VALUE PER EACH \$1.00 OF LOAN EXPENSE
Groundfish	\$2,340,853	\$15,972,354	\$6.82
CA crab	\$190,941	\$1,302,847	\$6.82
CA shrimp	\$55,147	\$376,288	\$6.82
OR crab	\$111,861	\$763,259	\$6.82
OR shrimp	\$182,312	\$1,243,970	\$6.82
WA crab	\$30,218	\$206,185	\$6.82
WA shrimp	\$21,218	\$144,777	\$6.82
Total	\$2,932,550	\$20,009,680	\$6.82

(8) What's the *average* effect for each post-buyback permit holder?

All other things being equal, the bidding results mean greater ex-vessel revenues for fewer post-buyback permit owners. Using the *average* annual ex-vessel landing value in each of the seven fisheries from 1998 through 2001, the following tables illustrate the buyback's *potential* effect in each of the fisheries:

	GROUND FISH		
	BEFORE BUYBACK	AFTER BUYBACK	NET DIFFERENCE
Number of permits	263	171	92 less
Average, annual, total ex-vessel gross revenue	\$43.8 million	\$43.8 million	none
Average per permit	\$166,536	\$256,135	\$89,599 more
Minus 5% Fee	-	\$12,807	\$12,807

Net average per permit	-	\$243,328	\$76,792 more
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	CA CRAB		
	BEFORE BUYBAC K	AFTER BUYBAC K	NET DIFFERENCE
Number of permits	632	609	23 less
Average, annual, total ex-vessel gross revenue	\$15.0 million	\$15.0 million	none
Average per permit	\$23,663	\$24,556	\$893 more
Minus 1.28% Fee	-	\$314	\$314
Net average per permit	-	\$24,242	\$579 more

	CA SHRIMP		
	BEFORE BUYBAC K	AFTER BUYBAC K	NET DIFFERENCE
Number of permits	77	31	46 less
Average, annual, total ex-vessel gross revenue	\$1.27 million	\$1.27 million	none
Average per permit	\$16,456	\$27,546	\$11,090 more
Minus 4.35% Fee	-	\$1,198	\$1,198
Net average per permit	-	\$26,348	\$9,892 more

	OR CRAB		
	BEFORE BUYBAC K	AFTER BUYBAC K	NET DIFFERENCE
Number of permits	443	433	10 less

<i>Average, annual, total ex-vessel gross revenue</i>	\$19.7 million	\$19.7 million	none
<i>Average per permit</i>	\$44,372	\$45,397	\$1,025 more
Minus 0.57% Fee	-	\$259	\$259
<i>Net average per permit</i>	-	\$45,138	\$766 more

OR SHRIMP			
	BEFORE BUYBAC K	AFTER BUYBAC K	NET DIFFERENCE
Number of permits	185	145	40 less
<i>Average, annual, total ex-vessel gross revenue</i>	\$7.6 million	\$7.6 million	none
<i>Average per permit</i>	\$41,234	\$52,608	\$11,374 more
Minus 2.39% Fee	-	\$1,257	\$1,257
<i>Net average per permit</i>	-	\$51,351	\$10,117 more

WA CRAB			
	BEFORE BUYBAC K	AFTER BUYBAC K	NET DIFFERENCE
Number of permits	232	229	3 less
<i>Average, annual, total ex-vessel gross revenue</i>	\$18.2 million	\$18.2 million	none
<i>Average per permit</i>	\$78,569	\$79,598	\$1,029 more
Minus 0.17% Fee	-	\$135	\$135
<i>Net average per permit</i>	-	\$79,463	\$894 more

WA SHRIMP			
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	BEFORE BUYBACK K	AFTER BUYBACK K	NET DIFFERENCE
Number of permits	109	95	14 less
Average, annual, total ex-vessel gross revenue	\$1.38 million	\$1.38 million	none
Average per permit	\$12,607	\$14,465	\$1,858 more
Minus 1.54% Fee	-	\$223	\$223
Net average per permit	-	\$14,242	\$1,635 more

(9) What's the practical effect?

If (a) each \$1 spent on buyback loan repayment fees results in \$6.82 of extra gross operating revenue and (b) the operating cost of producing the extra revenue doesn't increase, the practical effect would be \$5.82 earned for each \$1 spent. The fixed operating costs (for example, debt service and insurance) should remain the same with or without the buyback. Consequently, any potential increase in operating costs needed to produce the extra gross revenue should be limited to variable operating costs, and the degree to which this may reduce the \$5.82 gain may vary among permit holders and fisheries.

(10) Will the buyback loan repayment fees be tax deductible?

We believe the landing fees each post-buyback harvester pays will be deductible as an expense of doing business, but this is an Internal Revenue Service determination.

(11) Will the fee rates decrease in the future?

The thirty-year buyback loan is a *fixed* principal amount at a *fixed* interest rate, and ex-vessel prices will presumably inflate over the next 30 years. *All other things being equal*, if ex-vessel prices inflate over time, the fee rates will become a smaller percentage of landing values.

(12) How will we weight votes from each of the seven fisheries?

FISHERY	TOTAL EX VESSEL VALUE, DURING 4 YEARS FROM 1998-2001, OF CAPACITY WHICH BUYBACK REMOVES		
	EACH OF 7 FISHERIES (DIVIDEND)	DIVIDED BY ALL 7 FISHERIES (DIVISOR)	EQUALS WEIGHTING PERCENTAGE FOR EACH OF 7 FISHERIES
Groundfish	\$63,889,417	\$80,038,721	79.82%

CA crab	\$5,211,386	same	6.51%
CA shrimp	\$1,505,152	same	1.88%
OR crab	\$3,053,036	same	3.82%
OR shrimp	\$4,975,881	same	6.22%
WA crab	\$824,741	same	1.03%
WA shrimp	\$579,108	same	0.72%
Total	\$80,038,721	same	100.00%

This concludes the buyback bidding summary.

After October 29, 2003 (*the last day for our receipts of votes*), we will notify all bidders and voters of the referendum results and publish a reduction payment tender notice in the Federal Register as soon as we possibly can.

Please note the following two corrections to the table on page No. 5 of my July 30, 2003, letter about the referendum:

- In the second column's heading, "2003" should be "2001", and
- The table should have indicated that the ex-vessel values in the second and third columns are those of the accepted bidders' buyback vessels.

Please do not hesitate to contact us, at the following numbers and addresses, if you need further referendum or buyback information of any kind:

PERSON	NUMBERS/ADDRESS	
	TELEPHONE (301) 713-2390	E-MAIL ADDRESS
Mike Sturtevant	Extension 212	michael.a.sturtevant@noaa.gov
Shawn Barry	Extension 186	shawn.barry@noaa.gov
Mike Grable	Extension 185	michael.grable@noaa.gov

We look forward to receiving your referendum ballot not later than October 29, 2003.

Sincerely,

Michael L. Grable, Chief
Financial Services Division

ENCLOSURE (one ballot for one permit)

